

On the subject of workload, the month of September saw 29,898 UI verifications and 24,266 dispositions, causing the balance of UI cases to reach an all time high of 48,164 cases. The number of DI and Tax cases also increased slightly. The total balance of all cases has reached the level of 58,058 as of the beginning of October 2008. This is also an all time high. The increase was due in part to the high level of unemployment, but we have also some residual impact from the Executive Order. We hope to reverse the trend through the mass calendars, increased hiring, and other aggressive measures identified in the Workload Reduction Plan.

Time lapse are as follows: the number of cases heard within 30 days is down to 3%, from an average of 5% over the last year. The number of cases heard in 45 days is 12%, as compared to an average of 17% over the last year, and the number of cases heard in 90 days is up to 91%, from an average of 89% during the last year. Case aging has stayed relatively constant with the average case age of 38 days for the year, being reduced to 37 days for cases in September of 2008.

There is a positive news in the individual offices of San Jose, Pasadena, Oxnard, Orange County, and Fresno, all of which reduced the outstanding balance of cases in their individual offices. These reductions were due in part to the rehiring of individuals who were laid off as a result of the Executive Order, and due also to major efforts made by judges and staff and the holding of frequent mass calendars. Some judges are handling more cases than is required.

We anticipate the economic downturn continuing to affect the workload, but we also anticipate increased capacity due to aggressive measures suggested in the Workload Reduction Plan.

During the last month Chief ALJ Tyler visited seven potential locations for the relocation of offices. The most urgent office relocation plan is in San Jose. A lease extension in San Jose allows the office to remain at the site until March 30, 2009.

The Oxnard office is also considering relocation of its main office. Their lease expires November 2009 and they will need to move to another location. The Indio site of the Inland office, which is currently owned by EDD, is in the process of being sold. The Facilities Department is looking for a new site in the Indio/Palm Springs area. Office renewals are being accomplished in Santa Cruz and Salinas; the Gilroy site has been closed.

b. Acting Deputy Chief Administrative Law Judge, Appellate Operations (AO), Jorge Carrillo reported that for the month of September 2008, AO registered 1,385 cases which was 5% below our calendar year average of 1,457 cases per month. In September they had two of our three full-time registration staff out for the entire month. Fortunately, they were able to authorize overtime and use one retired annuitant with experience in registration. Additionally, they borrowed personnel from Administration and P&PM.

The number of dispositions in AO for the month of September 2008 was 1,505, 7% above the average of 1,409. With dispositions outpacing registrations, the number of open cases dropped to 2,036 cases, which is a healthy balance of cases for the number of judges we have. Given the increasing number of dispositions in the field, and a higher rate of appeal, from 5.7% to 6.4%, AO expects an increase in the number of cases in the coming months.

Time lapse numbers are as follows: AO closed 4.65% of cases within 45 days of the appeal date. This is significantly below the 26% number we have averaged for the calendar year and far below Department of Labor's (DOL) expectation of closing 50% of our case within 45 days of the appeal date. Acting Deputy Chief ALJ Carrillo stated he will be working with the Information Technology Division to run inquiries in their database to help understand the causes for the lower performance numbers.

Acting Chair Aguiar commented that this is extremely disappointing. He directed that they come up with a plan to rectify and fix the problem. There is no reason why the numbers are so low.

Acting Chief Deputy ALJ Carrillo replied that he suspects that there are a combination of things when a board appellate file moves to various stages, and even one or two days of one days at each stage adds up at the end. A case has to get moved from the field to the appellate, it has to be registered right away, notify the parties of their rights, and assigned to the judges as soon as possible. The judges have to review them and prepare a decision, get them typed, and then move them to the Board, which has to issue a decision within a short period of time. Any delay can make it miss the 45 days. It can be done and it requires a lot of focus and time and hopefully this information can give us enough data where we can analyze how we can meet the 45 days standard.

Acting Chair Aguiar asked how much time it will take to gather the information.

Acting Chief Deputy ALJ Carrillo responded that he will be meeting with Pam Boston and IT to determine that, hopefully not more than a month or so.

Member Richardson asked for clarification as to whether this time is from the time the case comes up from the field until the time we mail out the board decision.

Acting Chief Deputy ALJ Carrillo added that it actually starts the day the person put the envelope in the mailbox or faxes it to us.

Member Montañez asked if there was any way to show Board Members the case priority?

Acting Chief Deputy ALJ Carrillo stated that if you have the file physically with you it has the time lapse date on it. But if you are looking at the E-File system he does not know and has to talk to Ralph Hilton and see if that can be reflected.

Chief Counsel Hilton explained that it can be done, and they are currently working on changing e-file to do so.

Acting Chief Deputy ALJ Carrillo added that AO met DOL's two other time lapse standards. They closed 87% of their cases within 75 days of the appeal date and 100% of their cases within 150 days of the appeal date.

At this point in the meeting, Chair Aguiar introduced Deborah Bronow, EDD Deputy Director, UI Division, who gave a presentation on the financing issues of the Unemployment Compensation program (Attachment A).

c. Deputy Director, Administrative Services Branch, Pam Boston reported on recruitment efforts. There have been several ALJ hires in Oxnard, Inland, San Diego, Inglewood, Fresno, and Sacramento. This hiring included both ALJs and support staff.

d. Acting Deputy Director, P&PM Branch Renee Erwin reported that the October revise has just come out. The CUIAB budget authority for the UI Program and DI Program are adjusted annually in the May revise and October revise based on workload projections. It is driven by the changes in the economic forecast published by the Department of Finance and EDD's Labor Market Information Division. The UI Program is experiencing unprecedented workload increases and CUIAB will set a historic record of over 300,000 UI new appeals in the 2008 calendar year. Passage of the Federal Extension Program has contributed to the increase in our workload. DOL has notified the states that the base funding level is dependent upon the fiscal year budget and is subject to being changed based on the national level of UI administration dollars and pending approval by Congress. Hopefully we will have a decision by Congress in January 2009 as to whether over base will be funded at 100% or 32%. CUIAB built the 2008-09 budget assuming funding at 32%. The October revise projects an increase of 328 temporary positions and \$34.7 million in funding for UI and DI.

8. Chief Counsel's Report:

Chief Counsel Hilton reported on the litigation front seven new cases came in last month. One case was closed, affirming the Board. We have one case in which the Petitioner has petitioned the CA Supreme Court for review, a rate manipulation case involving an amount of \$49 million.

9. Unfinished & New Business:

a. Workload Reduction Plan:

Acting Chair Aguiar stated that a plan to reduce the backlog of cases has been prepared. Renee Erwin worked hard together with Pam Boston, Stephen Tyler, Jorge Carrillo, Hugh Harrison, and Jehan Flagg.

Acting Deputy Director Renee Erwin reported that the workload reduction plan is based on several factors. The first of which is to look at the average number of cases we were receiving per month. To keep as simple as possible, we are basing it on average UI workload received over the last nine months, January-September 2008. On that basis, we are receiving approximately 24,911 cases per month. The estimated number of extension program cases is expected to be about 1250, which brings the monthly total to 26,161 cases per month. We looked at our actual production, and as of September 1, we had 61.3 ALJ I, 88.7 ALJIIIs. We are working an average of 10 position equivalent of our Retired Annuitants. There are approximately 40 judges doing additional calendars, and 14 PJs hearing cases one day per week, bringing the total dispositions to 24,291.

Acting Chair Aguiar commented that that is what we are doing right now prior to Board approval of the budget last month.

Acting Deputy Director Renee Erwin stated that the Board approved several enhancements to production: 10 ALJII promotions effective October 1, another 10 ALJII promotions effective January 2009, and many new judge hires. Those all should be on board with effective date of October or November and producing by the end of the year. They will generate an additional 18,011 decisions per month.

Acting Chair Aguiar clarified that we have hired a total of 11 judges since the last Board meeting, approved by the Board and funded.

Acting Deputy Director Erwin stated that in addition, we proposed 21 additional ALJs one hires, who should reach full production within three months. To support all of this increase in production we will also hire 21 additional support staff.

Acting Chair Aguiar stated that we have 9 new ALJs in the budget and additional 21 ALJs, a total of 30 hires and 21 Support staff and 3 months training time.

Acting Deputy Director Erwin explained that the inventory reduction schedule anticipates dispositions equaling the open balance of cases by February 2010, at which point the Agency will be current with its workload. However, if verifications increase by 5%, it will take us until March 2011 to become current.

Acting Chair Aguiar added that we will need to continually monitor the situation, and be prepared to make adjustments as needed.

Member Richardson commented that we have a 2 year 6 month goal for achieving this point, and 24 months of hiring ALJ. How do we reconcile those two?

Acting Deputy Director Erwin replied that we would bridge the gap because they are limited term and if the workload does drop off, we would cut their hours or let them go. But if we needed them beyond the 2 years 6 months that would be addressed through additional hires.

Member Richardson added that we would hit the 24 months before we hit the 2 years 6 months.

Acting Executive Director Jehan Flagg explained that under that scenario it is possible and likely that we pick up some of those limited term as permanent.

Acting Deputy Director Erwin reported that in the current year the Board approved our budget with a \$1.6 million reserve that was not allocated to any specific need. The proposed increased expenses for this plan to pay for salaries in addition to an augmentation for operating expenses and equipment comes to \$1.5 million. The new ALJ hires will generate within the fiscal year \$207,000 in earnings, leaving the reserve balance at \$271,000 by June 30, 2009.

Acting Chair Aguiar inquired if it is possible that 6 months from now DOL will say that our plan is not good enough.

Acting Executive Director Flagg replied that it is possible.

PALJ Harrison added that DOL's been very clear that they don't believe they know enough yet. He thinks that they want us to do procedural things on how to handle our workflow. We might have to make some changes, but in the end it's get the bodies and reduce the backlog and start addressing the structural issue.

Acting Chair Aguiar asked about the retired annuitants.

Acting Deputy Director Erwin stated that we average about 40 of the retired judges working per month but once you add all the hours they have actually worked it only comes to position equivalent of 10 bodies.

The workload reduction plan was approved unanimously without any objections. Acting Chair Aguiar thanked Pam Boston and Renee Erwin for all of their help.

Acting Deputy Director Erwin stated that her one last item is that last Thursday she received in the mail her notice of termination as Acting Deputy Director P&PM, and stated that this will be her last board presentation on behalf of the Branch.

b. Proposed Precedent Decision, AO-144947, relating to subject matter and notice jurisdiction:

Chief Counsel Ralph Hilton stated that the issue for the Board is whether or not to designate this decision as a precedent decision. The decision that has already been reviewed on the merits and approved by each Board member, and the question is whether or not the case deals with a principle significant enough to warrant designation as a precedent. The decision has been reviewed by the Precedent Review Committee, which recommends adoption as a precedent. The decision addresses whether or not an ALJ in the Field has jurisdiction over status

in a case which is noticed as a simple separation case. The employer raised the status issue, taking the position that regardless of the nature of the separation, the claimant should not be paid benefits because the individual did not work as an employee. The employer claimed the individual was an independent contractor. The trial or field judge declined jurisdiction to determine the status issue because status was not part of the notice of determination by EDD. In this decision the Board finds that status is an element inherent in every decision under Section 1256, therefore the judge did have subject matter jurisdiction over the status issue. However, there was no notice jurisdiction, so the case was remanded back to the field ALJ to decide the status issue, with the Board decision now constituting proper notice regarding that issue. In summary, as long as there is proper notice, an ALJ may consider status in any separation case. The Precedent Review Committee recommends that this decision be designated as a precedent so that our ALJs will have a guidance for these this kind of situations.

Member Richardson asked whether this decision would allow the ALJ in the field to seek a notice waiver where appropriate, to which Chief Counsel Hilton responded in the affirmative, as consistent with a prior precedent decision.

The Board voted unanimously to adopt AO-144947 as a precedent decision.

c. CUIAB Restructuring:

Acting Executive Director Jehan Flagg made the presentation on the CUIAB Restructuring. She reported that we currently have three branches: Administration, Planning & Program Management, and Chief ALJ. This is a proposal to reallocate P&PM management branch staff to the Chief ALJ Branch and the Administration Branch. Staff responsible for workload numbers and field operations analysis would be housed and directed and managed by the Chief ALJ, and staff responsible for budget, fiscal, and training and program management would go to the Administration Branch. In consideration of the UI inventory reduction plan, the restructuring and timing makes sense to do this now, as it will make staff more responsive and supportive of the UI inventory reduction plan. From a long-term prospective it also makes sense because it gives the staff that works with the Chief's Office direct access to the persons who actually utilize the information they provide, and it also provides for a better working relationship between our fiscal staff and personnel/training staff, whose work relies significantly on fiscal considerations. This restructuring does not involve any elimination of positions, change of duties, or geographical relocations. It simply changes who is managing certain personnel.

Acting Chair Aguiar asked for clarification as to where the Information Security Officer would reside.

Acting Executive Director Jehan Flagg replied that the Information Security Office would be placed under the Executive Director, as would IT. The reason for this is state code requirements which require a high-level reporting relationships for those

IT and security functions. Practically speaking, it makes sense because the Executive Director has direct contact with the Labor Agency Chief Information Office as well as the State Information Security Officer. You can eliminate certain lines of command by having direct communication and access. The Information Security Office and IT both remain as Divisions. Everyone else under the P&PM Branch will be assigned to either the Administrative Branch or the Chief ALJ Branch, with maybe 2 or 3 exceptions. For example, it made sense for a few staff currently housed in San Diego to be assigned in support of the San Diego Office.

Acting Chair Aguiar reiterated that no one is losing a job. Acting Executive Director Flagg commented that the only position that will be lost is the SSM III position previously held by Mary Walton-Simons, and that the organization will return to its form as existed 8 years ago when the P&PM Branch was first created.

Member Figueroa inquired whether they had received any input from staff and the branches regarding this proposal.

Acting Executive Director Flagg stated that they have had discussions with the Chair as well as with the Administrative Branch, the Chief's Office, and AO.

Member Figueroa asked if there was any Union participation.

Acting Executive Director Flagg responded that this is a matter of internal organization that affects only reporting relationships, not duties or work location, and therefore no consultation with the unions was necessary or required.

Member Figueroa commented that we may have the authority but there is a certain courtesy to staff to explain to them. This is a major thing. No opportunity to hear the discussion is unfair.

Acting Executive Director Flagg explained we were in a position where we need to make decisions relatively quickly based on the direction that the Board gave us at the Board meeting last month with respect to the UI inventory reduction plan. As a result of that and as a result of the Governor's Executive Order from which we finally received dispensation from, we've had to move quickly without the luxury of time to be quite honest to be able to do things in a manner in which we all prefer. When it became clear that the inventory reduction plan was the first and foremost priority, we needed to figure out very quickly how many positions we have and how can we best reallocate our resources to get us out of the mess we're in. The mess we're in is thousands of cases in a backlog. It did not help when we had a temporary layoff, so we were not able to do things we wanted to do at that time. Now we are attempting to mobilize very quickly. The conversation that I had with P&PM unfortunately did not take place until Friday, and that was with Renee Erwin, and not with her entire staff. I did tell Renee that I would have preferred to have had that conversation with her and her staff much sooner.

Acting Deputy Director Erwin stated that Acting Executive Director Flagg said she was not allowed to discuss the matter with her. Acting Executive Director Flagg clarified that she had told Erwin she was not at liberty to discuss anything with her prior to that point because there were a lot of other factors that needed to come into play first.

Member Figueroa commented that this affects the morale of the Agency, and that morale affects productivity. She heard many judges say that under the previous leadership they were volunteering and putting in additional hours, doing anything to make our numbers work. This is not the case now.

Acting Deputy Director Erwin stated that she has a very strong concern that there will no longer be sufficient analysts to support the management classifications under the new restructure.

Acting Executive Director Flagg added that that is a valid concern, and it is something Personnel is working through. Deputy Director Boston added that they have the delegated authority to allocate positions at the staff level.

Acting Deputy Director Erwin commented that we are a workload driven agency, and that it is true that budget and workload need to be working very closely together.

Acting Executive Director Flagg replied they shall under this restructuring.

Acting Chair Aguiar added that most departments are organized in the manner proposed by this restructuring, with Budget an integral part of the Administration Branch.

Member Richardson clarified so she understands what they are talking about is absorbing P&PM and maintaining integrity of everybody's job, positions and their duties to the best of their ability. If something changes, you will go to DPA and fight for that employee and she wants this process to be very transparent. She does not want Administration doing all these things without the knowledge of the Board.

Member Richardson asked if the Executive Director position is a Governor's appointment or a Board appointment.

Acting Chair Aguiar responded that the Executive Director should be a Governor's appointee, and the Chief ALJ should be a CEA, which has been discussed previously.

Acting Chair Aguiar clarified that the separate Executive Director position has not been created yet because the Board has not yet approved the proposed organization chart. Once that has been approved, we will make a formal request.

Acting Deputy Director Erwin questioned whether they will augment that position with the salary dollar to fund it.

Acting Executive Director Flagg replied whenever they appoint a person it will come out of budget.

Member Richardson asked whether the Executive Director reports to all of the Board or just the Chair.

Acting Chair Aguiar replied that it is to the Board. Acting Executive Director Flagg clarified it is to the Chair, with which Acting Chair Aguilar agreed.

Member Figueroa commented that this Agency every couple of years or when there's a little action it becomes political and there's a whole new change. It was not like that before. A lot of people worked on this floor to try to make it non-political and transparent. With this chart it would not be the case. It could be my party and it does not matter. She just does not feel that this chart should be politicized.

Acting Chair Aguiar asked if she thought that the Governor's appointees and the Executive Director are politicizing it, to which Member Figueroa replied "Yes", and the Chair too.

Member Montañez questioned whether the two Governor's appointed positions have branches attached to them.

Acting Chair Aguiar stated they do not, and clarified that Sal Cannella works out of the Fresno Office.

Member Figueroa commented that the Governor won't pay for anything and does not pay attention to our budget.

Acting Chair Aguiar called for a vote on the new organization as presented to them.

The Board voted to approve the new organization, with Member Figueroa opposing.

10. Public Comment:

None

11. Closed Session:

The Board did not go into closed session.

Adjournment

Unemployment Insurance Financing

UI Program Background

- ◆ A federally mandated program based on federal law and administered by the states under state law.
- ◆ Enacted over 70 years ago. Established by the federal government under the Social Security Act of 1935 during the Great Depression.
- ◆ The purpose of the program is to provide temporary wage replacement assistance to workers who are unemployed through no fault of their own.
- ◆ The UI program is not a social welfare program and eligibility is not based on need.
- ◆ Promotes economic stability for unemployed workers and communities by maintaining the workers' purchasing power.
- ◆ Currently, the weekly benefit amount ranges from a minimum of \$40 to a maximum of \$450.
- ◆ The UI program is funded entirely by employers through payroll taxes on each employee.
- ◆ Employers pay a federal tax which funds program administration, and a state tax which funds benefit payments to unemployed individuals.

California's UI Tax Structure

- ◆ Employers pay state UI taxes on the first \$7,000 in wages for each employee on an annual basis. These taxes fund benefit payments to unemployed workers.
- ◆ The taxable wage base has remained unchanged since 1983. Prior to that, it was \$6,000.
- ◆ Maximum tax rate is 5.4%.
- ◆ Seven tax schedules (AA-F), with rates ranging from 0.1-5.4 percent.
- ◆ 15% "emergency solvency surcharge" increases maximum tax rate to 6.2%. Under this schedule, costs range from \$105 to \$434 per employee.
- ◆ The tax rate for new employers is 3.4% for up to the first three years, and then employers are assigned a rate based on experience.
- ◆ With the exception of the "AA" schedule, the current tax schedules have been in effect since 1985. Prior to 1985, there were only two tax schedules (high and low). The "AA" schedule was added in 1989.
- ◆ Employers are currently paying UI taxes based on the "F" schedule with the 15% surcharge (maximum rate of 6.2%).
- ◆ Tax schedule is determined based on the ratio of the UI Trust Fund balance to total gross wages reported by employers. The lower the ratio, the higher the tax schedule in effect for a given year.

Experience Rating

- ◆ An individual employer's tax rate is based on his or her "experience" with the UI program. This is known as the "experience rating" method.
- ◆ Each employer has a reserve account, which is a cumulative record of credits and charges and is the basis for the experience rating method.
- ◆ UI taxes paid by employers represent the majority of the credits to their reserve accounts, while UI benefits paid to their former employees represent the majority of the charges. The reserve account balance is the difference between the credits and charges.
- ◆ An employer's tax rate is determined based on the ratio of his or her reserve account balance to the average of the taxable payrolls for the prior three years. The lower the ratio, the higher the tax rate.
- ◆ Therefore, the more charges to an employer's account, the higher the tax rate. If an employer maintains a stable workforce and has fewer layoffs, his or her tax rate will be lower.
- ◆ Experience rating encourages employers to maintain a stable workforce, ensures an equitable distribution of costs, and encourages employers to participate in the UI system.

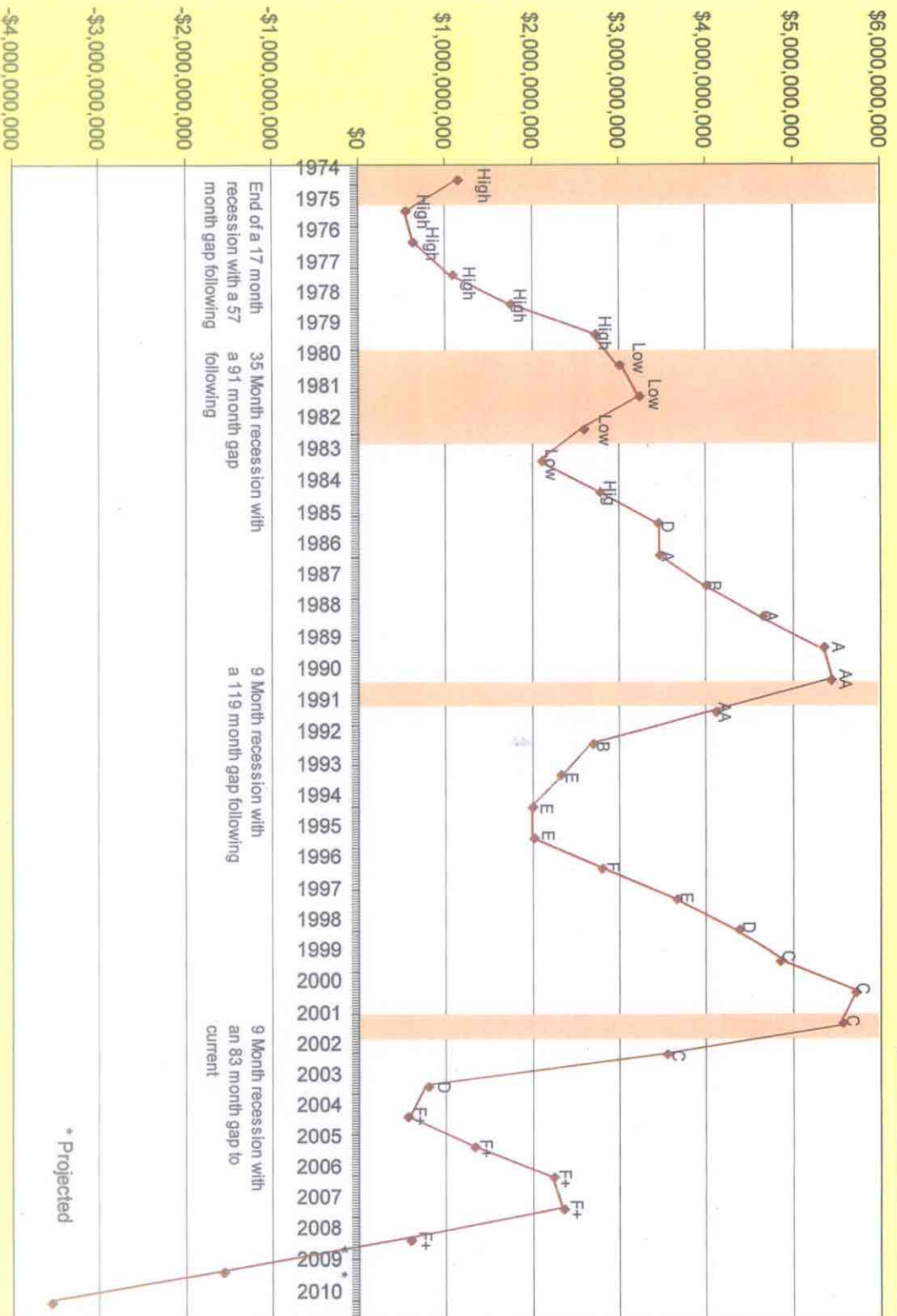
Pooled Risk Insurance Concept

- ◆ California uses a “pooled-risk” insurance fund approach.
- ◆ This approach requires all participating employers to pay UI taxes that are pooled into a common fund for benefit payments.
- ◆ Pooled-risk requires all employers to assume some liability for the State’s unemployed workers, helping to defray the high UI costs of employers with high experience ratings.
- ◆ Pooled-risk approach is based on the premise that some employers experience adverse economic conditions or have operations that are dependent on seasonal or temporary workers and pay for the costs up to a maximum tax rate but are not entirely liable for all of their UI costs. Seasonal industries such as agriculture and construction have traditionally fallen in this category.

Pooled Risk Insurance Concept

- ◆ UI costs that exceed an employer's contributions are "socialized" amongst all contributing employers. The retail industry consistently maintains a positive UI reserve account balance and typically subsidizes other industries.
- ◆ Other socialized costs are built into law and include eligibility provisions for individuals who separate from employment under special circumstances.
- ◆ For SFY 2006-07, 36% of UI benefit costs were socialized through various means.

UI Trust Fund Balance with Recession Period and Tax Schedule



Forward Funding

- ◆ The financing system implemented in 1985:
 - ⇒ Raised higher revenue than the previous system.
 - ⇒ Counter cyclical system with employers paying lower taxes during high unemployment and higher taxes during low unemployment.
 - ⇒ In 1990 benefits paid were \$2.2 billion and the fund balance was \$5.5 billion. This was also a benefit increase year.
- ◆ In the latter part of the 1990s the system lost its elasticity and needed to be updated.
- ◆ The benefit increases beginning in 2001 further exacerbated the limitations of the revenue model when benefits were increased and the revenue system was not revitalized.
- ◆ Pay As You Go is a system designed to only bring in sufficient revenues to cover the cost of benefits. That was not the original design of this model.

System Safeguards

- ◆ Indexing Taxable Wage Ceiling
 - ⇒ 18 states have some form of indexing their revenue model (Alaska, Hawaii, Idaho, Iowa, Louisiana, Minnesota, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, Utah, Virgin Islands, Washington and Wyoming)
 - ⇒ 2 states, Minnesota and North Carolina, had insolvent trust funds during the last recession.
 - ⇒ 2 states, New Jersey and Minnesota, are at risk of insolvency now.
- ◆ An important component of the UI system is encouraging stability in the workforce by creating an incentive for employers to manage costs.
- ◆ The industry composition of a state, state laws regarding who can collect and how much, all contribute to the system's stability.
- ◆ The maximum tax rates, tax schedules and the taxable wage ceiling all must be reviewed regularly against the economic conditions of the state.

Industry Base and the Economy

- ◆ Socialized Industries: Workers collect more benefits than the revenue paid by the employers in that industry sector.
⇒ Agriculture
- ◆ Construction was historically a socialized industry except during the last recession.
- ◆ Manufacturing in 2006-07 was not socialized yet in the last recession and the recession of the early 1990s it was a socialized industry.
- ◆ The service industry historically was an industry that paid more taxes except during the last recession when it was a socialized industry.
- ◆ The service industry sector has grown in California compared to other sectors that have declined.
- ◆ In the last 30 years, California has seen the loss of automobile and airline manufacturing, closing of federal bases and the related industry base that supported those bases, loss of federal contracts, mechanization in Agriculture and a myriad of other changes.
- ◆ These changes have to be considered and reviewed regularly to ensure a healthy revenue model for the UI system.

UI Benefit Eligibility

- ◆ The intent of the UI program is to provide partial, temporary wage replacement to workers unemployed through no fault of their own.
- ◆ UI is not an entitlement program; eligibility for benefits is dependent on having a substantial attachment to the labor force.
- ◆ A method used to measure this attachment is a minimum earnings test. This requirement denies benefits to claimants whose earnings in a 12-month period (base period) are below the minimum earnings.
- ◆ The assumption is that low earnings indicate a short or temporary attachment to the labor force.

UI Benefit Eligibility

- ◆ The UI claim is established using the “base period”, on which benefits are calculated. The base period is the first four of the last five completed quarters at the time the claim is filed. For example, a claim filed in January would have a base period of the 12 months ending the prior September.
- ◆ The amount of UI benefits paid each week is determined using the highest calendar quarter during the base period, in which claimants received their highest wages.
- ◆ A person must earn \$1,300 in a quarter or at least \$900 in a quarter and 1.25 times this amount in the remaining 12 month base period to be eligible for benefits ($\$900 \times 1.25 = \$1,125$).
- ◆ This requirement has been in place since 1992. Previously, individuals had to earn \$1,250 in a single quarter with the same base period requirement of \$1,125.
- ◆ The weekly benefit amount ranges from a minimum of \$40 to a maximum of \$450. Benefits are payable for up to 26 weeks. UI benefits replace approximately 50% of a worker's prior earnings.
- ◆ Prior to 2002, the maximum weekly benefit amount was \$230. The benefit amount increased to \$330 in 2002, \$370 in 2003, \$410 in 2004, and to the current amount of \$450 in 2005.

UI Benefit Eligibility

Individuals must also meet non-monetary eligibility criteria for UI benefits:

- ◆ Claimants must be out of work through no fault of their own.
- ◆ Claimants must be physically able to work.
- ◆ Claimants must be available, ready, and willing to accept suitable work.
- ◆ Claimants must be actively seeking work.

Status of the UI Trust Fund

- ◆ The most recent forecast projects benefit payments of \$6.9 billion in Calendar Year (CY) 2008 and \$7.2 billion in 2009 and 2010.
- ◆ Total employer contributions are expected to be \$4.8 billion in 2008 and 2009 and \$4.9 billion in 2010.
- ◆ At the end of CY 2008, the UI fund balance is projected to be \$598 million. By the end of CY 2009, the fund will have a projected deficit of \$1.6 billion, increasing to \$3.5 billion by the end of CY 2010.
- ◆ The instability of the economy and the rapid increase in unemployment have made forecasting difficult. The current forecast is based on a 6.4% unemployment rate in 2008, a 6.6% rate in 2009, and a 6.4% rate in 2010.
- ◆ The latest forecast from UCLA, released in September, forecasts a UI rate of 6.8% in 2008, 7.2% in 2009, and 6.9% in 2010.
- ◆ California's unemployment rate reached 7.7% in August.
- ◆ EDD will release a new forecast this month that is based on the current economic conditions.

Short-Term UI Fund Projections

- ◆ As of August 2008, the UI fund balance was \$2.1 billion.
- ◆ Benefit payments through August total \$4.4 billion.
- ◆ \$4.7 billion in UI taxes were collected as of the end of the State Fiscal Year.
- ◆ Short-Term UI Fund Projections:
 - ⇒ 12 Months (October 2009): - **\$905 million**
 - ⇒ 18 Months (April 2010): - **\$2.99 billion**
 - ⇒ 24 months (October 2010): - **\$2.9 billion**
 - ⇒ Six Months (April 2009): - **\$867 million**
- ◆ Interest costs for federal borrowing are projected to be \$5.4 million due September 30, 2009. An additional \$85.8 million in interest would be due September 30, 2010.
- ◆ Interest costs cannot be paid from the State UI Trust Fund or the federal administrative grant. A separate State funding source must be used for interest payments.

Alternatives

- ◆ There are several basic components to the UI system, which are all interrelated. As discussed, these include the taxable wage ceiling, tax rates, tax schedules, as well as benefit and eligibility provisions.
 - ⇒ Raising the tax rates reduces socialization.
 - ⇒ Raising the taxable wage ceiling without consideration of the tax rates could undermine the experience rating process.
- ◆ Changes to all of these components should be considered to produce a robust financing structure responsive to the current and future economic conditions.
- ◆ Any change that is made to the system involves policy decisions about who will collect benefits and who will pay for those benefit costs.
- ◆ A sound financing system should strive for a balance among industries in terms of revenue collected and benefits paid, thereby avoiding an unfavorable economic situation for any single industry.
- ◆ A multi-year approach could be considered to build the trust fund back to an adequate level.